

OFFICE OF THE AUDITOR GENERAL

1980 Annual Report

A Report to the California Legislature



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Chairman and Members,
Joint Legislative Audit Committee
925 L Street, Suite 750
Sacramento, California 95814

Dear Mr. Chairman and Members:

I respectfully submit my Annual Report for 1980. This document presents an overview of the office activities for 1980 and illustrates the broad scope of audits undertaken during the year at the request of numerous legislators.

This report includes summaries of performance reports with recommendations and the corresponding agency actions, a schedule highlighting the financial reports, and sample cases from the new investigative division.

Respectfully submitted,

A handwritten signature in cursive script that reads "Thomas W. Hayes".

THOMAS W. HAYES
Auditor General

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INTRODUCTION TO THE OFFICE OF THE AUDITOR GENERAL

The Office of the Auditor General is the nonpartisan auditing and investigative arm of the California Legislature. Established in 1956, the Office is responsible for objectively reporting to the Legislature and the general public the results of audits of executive agencies and programs. This section focuses on the authorization and standards of the Office, its legislative committee, and its organization.

Authorization and Standards

The Office of the Auditor General is legally authorized to perform oversight activities by Sections 10527 and 10528 of the Government Code. Section 10527 authorizes the Auditor General to "examine any and all books,...records, bank accounts, and...other property, of any agency of the State...." This section also mandates that any officer refusing to allow the Auditor General such access to documents is guilty of a misdemeanor. Section 10528 instructs the Auditor General to "examine and report annually upon the financial statements prepared by the executive branch" and to "make such special audits and investigations, including performance, of any state agency...as requested by the Legislature...."

To ensure that it fulfills these legislative requirements, the Office of the Auditor General has adopted the standards for auditing developed and issued by the United States General Accounting Office (GAO). These standards are the product of extensive study of the auditing needs and practices of federal, state, and local governments and are printed in the GAO booklet, Standards for Audit of Governmental Organizations, Programs, Activities, and Functions. The Office also has adopted the standards of the American Institute of Certified Public Accountants as presented in various publications.

Organization

Before conducting an audit or investigation, the Auditor General must first receive approval from the Joint Legislative Audit Committee (JLAC). The JLAC consists of four members of the Senate and four members of the Assembly. Under the Joint Rules of the California Legislature, two of the eight members of the Committee must be the fiscal committee chairs of the Senate and Assembly. Senate members are appointed by the Senate Committee on Rules, and Assembly members are appointed by the Speaker of the Assembly.

The JLAC receives requests for audits from legislative committees and from legislators. Since the JLAC receives many more requests for audits than its available staff can complete, it must review these requests and establish work priorities. Once the order is determined, the JLAC directs the Auditor General to begin the audits.

In response to approved audit requests, the Auditor General directs the Performance, Financial, and Investigative Audit Divisions in conducting audits of any state or local agency receiving state funds or any federally funded agencies for which the State is responsible. The Auditor General must conduct these audits independently and report on the issues in accordance with nationally recognized auditing standards. This independence applies to hiring and assigning staff, selecting audit scope and methodology, and reporting findings and conclusions.

The Office of the Auditor General currently employs about 114 personnel who were selected after a rigorous screening process. The professional audit staff includes men and women with a variety of backgrounds. All staff members are college graduates; one-third hold graduate degrees, and 27 are certified public accountants. The staff has expertise in fields such as business administration, psychology, and political science.

The names of professional and administrative staff members of the Office of the Auditor General appear on the inside front cover of this report.

SUMMARY OF ACTIVITIES FOR 1980

The major objectives and accomplishments of the Performance, Financial, and Investigative Audit Divisions for 1980 are presented below.

Performance Audit Division

The Performance Audit Division reviews programs funded by the State to determine if they are efficient and cost-effective. These audits enable the Legislature to determine whether programs are accomplishing the objectives intended by law.

After the Joint Legislative Audit Committee approves an audit, an Assistant Auditor General assigns the work to a performance audit team whose work is directed by a manager. The audit team first performs a preliminary survey to identify specific issues warranting review. After management reviews the audit issues and their potential development into findings, the audit team begins a detailed audit employing various management and analytical techniques.

This year, the Performance Audit Division conducted 28 audits of state-administered programs ranging from Bilingual Education to a report on the contract compliance of the Computer Sciences Corporation, the Medi-Cal subcontractor. These audit reports and agencies' responses to them are summarized in the following section. As the summaries illustrate, agencies generally have accepted the Auditor General's recommendations made in reports issued since January 1980. Moreover, these recommendations could lead to savings in excess of \$50 million annually.

Financial Audit Division

Through October 1980, the Financial Audit Division was responsible for the performance of audits mandated by the Federal, State, and Local Federal Assistance Amendments of 1976. The amendments require that all state agencies receiving federal funding be audited once every three years. Compliance with these requirements has enabled the State to receive \$275 million annually in revenue sharing funds.

In addition to these audit reports, each state department received a management letter from the Auditor General. These management letters identified control weaknesses which, if uncorrected, could allow fraud, waste, or abuse in government. These letters are available upon request.

The Financial Audit Division conducts financial audits, which are traditional reviews of an agency's financial records. These audits assess whether an agency has conducted its fiscal operations properly and has presented its financial position fairly in its statements. During calendar year 1980, the Financial Division issued 122 reports, which are listed in a schedule on the following pages.

Investigative Audit Division

The Reporting of Improper Government Activities Act, effective January 1, 1980, provides procedures for officers and employees of the State to disclose improper government activities without fear of retaliation. To implement the act, the Auditor General created the Investigative Audit Division in February 1980. The Investigative Audit Division differs from the Financial and Performance Audit Divisions because it responds to a large number of allegations of improper government activities. Most allegations are received over a toll-free telephone that the division operates 24 hours a day.

In 1980, the Investigative Audit Division received 1,433 complaints. Of this total, 963 complaints either were referred to a more appropriate agency or did not warrant investigation. The remaining 470 were logged and received internal investigations. (Details about the division's investigative procedures appear in the final section of this report.)

The reports that the Investigative Audit Division issues on its inquiries into allegations are confidential. These reports are released to the public only if corrective measures are not taken.

SUMMARIES OF 1980
PERFORMANCE AUDIT REPORTS

This section includes summaries of all performance audit reports issued in 1980. For reports containing recommendations to the Legislature or the agency, we restate the recommendation and, alongside it, discuss actions taken in response. It is important to note that these actions are not verified; they have been recorded as reported by the various agencies.

The summaries, which are organized alphabetically by agency audited, include the page numbers within the 1981 Governor's Budget corresponding to each agency. The report numbers which appear on the upper right-hand corner of each summary can be used to obtain the full-length reports from the Office of the Auditor General. An index to the summaries appears after the final section of the report.

STATUS OF THE CALIFORNIA DEPARTMENT OF AGING'S FUNDING, CLOSING OF
CONTRACTS, AND MANAGEMENT INFORMATION SYSTEM

SUMMARY OF FINDINGS

The California Department of Aging administers funds allocated to the State under the federal Older Americans Act of 1965 as amended. The department is responsible for supervising and administering nutrition and social services programs for the elderly.

We reviewed the status of Older Americans Act funds, the department's process for closing contracts with local agencies, and the status of the department's management information system. We found that

- As of September 9, 1980, approximately \$2.1 million in Older Americans Act funds were available to commit to local agencies providing nutrition and social services to the elderly. But this amount may be augmented or reduced;
- Thirty-six expired contracts originally valued at \$10.6 million had not been closed as of September 9, 1980. In addition, the department has taken an average of 8 to 12 months from the date of contract expiration to close contracts;
- The department requires the Area Agencies on Aging to submit program and fiscal reports, some of which may contain estimates. Further, department staff stated that all of the local agencies' reports are not received by the due dates.

ANALYSIS OF THE STATE SCHOOL FUND SHORTFALL

SUMMARY OF FINDINGS

Chapters 282 and 1035 of the Statutes of 1979 present a revised method of financing public schools. Basically, these chapters provide for state aid to school districts to fund the difference between the districts' revenue limits and local revenues.

Because school district state aid claims at mid year (1979-80) exceeded the amount available in the State School Fund by approximately \$162.2 million, the Department of Education reduced each district's apportionment by 3.47 percent. However, the \$162.2 million shortfall will be reduced to \$54.7 million by the end of the year because of these factors:

- Local revenues to school districts will increase by at least \$26.8 million;
- School districts probably will reduce their revenue limits by an additional \$25.5 million;
- Average daily attendance (ADA) will decline as it has historically, thereby requiring \$34.5 million less in state aid;
- An additional \$20.7 million in miscellaneous revenues is available to the State School Fund.

Furthermore, if certain mandated costs are funded through a separate fund or a specific appropriation, the remaining \$54.7 million shortfall would be reduced to \$5.5 million.

We also found that school district's claims for mandated costs do not need to be audited before or after they are paid. As a result, there is no assurance that payments are made for appropriate and justified costs.

AUDITOR GENERAL RECOMMENDATIONS
TO THE LEGISLATURE

LEGISLATIVE ACTION

The Legislature should consider alternative procedures for funding and reviewing mandated costs. Such alternatives could include:

- Funding mandated costs through a separate fund by extracting the current year's estimated funding requirements from the State School Fund and augmenting it with additional funds from the General Fund. If separate funding is provided, the State Controller should be authorized to audit claims prior to payment;
- Limiting the amount of the State School Fund which may be used for mandated costs by establishing a specific appropriation to the State School Fund for those costs. If a specific appropriation is established in the State School Fund, the Department of Education, as the certifying agency, should be given the authority to review and to disallow unwarranted claims before submitting the apportionment to the State Controller.

Legislation has been enacted to directly fund mandated costs and to require the State Controller to audit claims prior to disbursement.

The Legislature chose to enact the alternative stated above.

Furthermore, to equalize the effect of a shortfall in the State School Fund, the Legislature should consider requiring proportionate adjustments to a school district's total revenues rather than to only the state aid portion.

No action taken.

AUDITOR GENERAL RECOMMENDATIONS
TO AGENCY

AGENCY ACTION

We recommend that the Department of Education take these actions:

- Adopt the use of Form J-29B property tax estimates in computing the first principal apportionment because it contains more current information;
- Revise its 1979-80 second principal apportionment report instructions to be consistent with Assembly Bill 8. The revision should require that 1978-79 block grant funds received in lieu of permissive override taxes not exceed expenditures for Child Development and for Development Centers for Handicapped Pupils and that Meals for Needy Pupils be deducted from the 1978-79 recalculated revenue limit;
- Factor each district's first principal apportionment average daily attendance. This factor could be based upon the district's average reduction in ADA between the first and second principal apportionments in previous years;
- Consider all revenue sources when determining funds available to the State School Fund.

Legislation was introduced to this effect. Also, the Department of Education is revising the Form J-29B.

The Department of Education has revised the language associated with these revenue limit calculations.

No action taken.

Recommendation accepted.

DEVELOPMENT AND IMPLEMENTATION OF STANDARDS AND PROCEDURES FOR
AUDITS OF CALIFORNIA LOCAL EDUCATIONAL AGENCIES

SUMMARY OF FINDINGS

We reviewed the development and implementation of standards and procedures for audits of California Local Educational Agencies (LEAs). Generally, we found that the State Department of Finance (SDF), the State Department of Education (SDE), and the Board of Governors of the California Community Colleges (CCC) have acted appropriately in updating the audit procedures in view of the changing audit environment. The SDF issued an audit manual prescribing standards independent auditors must follow in auditing LEAs. This manual did not include detailed audit procedures, program descriptions, or federal compliance objectives. To assure compliance with new audit guidelines issued by the federal Office of Management and Budget, the SDE developed compliance guidelines for auditors to consider in auditing federal programs.

In examining a sample of district audit reports, we found instances of noncompliance related to (1) district claims for federal and state categorical aid programs and allowances, (2) average daily attendance, and (3) specific areas of compliance of concern to the State. Additionally, we found that despite the potential for losing state and federal funds and noncompliance with several statutory and regulatory requirements, no state agency has assumed continuing responsibility to determine and to require compliance with the audit standards.

Further, we reviewed actions taken by the SDE and the CCC to review districts' audit reports, to eliminate audit exceptions, and to report to the Joint Legislative Audit Committee. Our review disclosed that the overall review process and actions to eliminate the audit exceptions should be strengthened. The SDE and the CCC reported many exceptions which may affect state funding; however, neither report to the Joint Legislative Audit Committee disclosed the amount of state funds involved in these exceptions. Also, the reports did not indicate adjustments necessary to eliminate the exceptions.

* This report also applies to the Board of Governors of the California Community Colleges, Governor's Budget Page E 175 and the Department of Finance, Governor's Budget Page GG 137.

AUDITOR GENERAL RECOMMENDATIONS
TO LEGISLATURE

We recommend that the Legislature take the following actions:

- Clarify the responsibility for determining and requiring compliance with audit standards;
- Require the Department of Finance to assist and cooperate with the SDE and the CCC in reviewing audit reports;
- Amend Education Code Sections 41020 and 84040 to specify (1) that the governing board of each district is responsible for filing that district's audit report and (2) that each County Superintendent of Schools is responsible for filing that county's audit report by November 15;
- Provide that each audit report include officials' responses to audit exceptions and management improvement recommendations as detailed in the report;

LEGISLATIVE ACTION

No action taken on the legislative recommendations.

AUDITOR GENERAL RECOMMENDATIONS
TO LEGISLATURE

- Provide that a report of audit exceptions and management improvement recommendations be filed with the governing board by October 15, that the governing board be allowed seven days to respond to the report, and that the audit report be delivered to the governing board by November 8.

AUDITOR GENERAL RECOMMENDATIONS
TO AGENCY

We recommend that the State Department of Education and the Board of Governors of the California Community Colleges:

- Determine the amount of audit exceptions and make adjustments when these exceptions relate to the apportionment of state funds;
- Promptly contact the districts to obtain explanations when the auditor reports no opinion or the opinion is other than unqualified;

AGENCY ACTION

No action taken on recommendations to the agencies.

AUDITOR GENERAL RECOMMENDATIONS
TO AGENCY

- Conduct pilot projects to match audited data with data used as a basis for disbursing state funds.

We recommend that the CCC report auditors' opinions by fund in its annual report to the Joint Legislative Audit Committee.

FINANCING AND ADMINISTRATION OF SPECIAL EDUCATION PROGRAMS FOR
HANDICAPPED PUPILS

SUMMARY OF FINDINGS

Our review of California's special education programs for handicapped pupils indicated that the funding model for the Master Plan for Special Education based upon instructional services has not been fully implemented. To accomodate projected service levels within available resources, funds have been apportioned under the program through negotiation of program levels with Master Plan participants or through per capita funding amounts. These approaches do not reflect the variation among school districts in their populations of handicapped students, in the nature and severity of pupils' disabilities, and in pupils' differing service needs.

Overall, implementation of the Master Plan has required more state financing than originally projected. This is primarily the result of the loss of local property tax revenues which were originally intended to be a financing source under the Master Plan.

To control the costs of special education, the State needs specific criteria and guidelines for determining the eligibility of pupils and for assessing their progress. Also needed are standards for providing and financing education and related services for handicapped pupils. Improvements in these areas could limit growing enrollments as well as the costs of special education and could assist in ensuring that appropriate services are provided to handicapped children. Additionally, the State could increase federal resources for serving these children by maximizing funds available through a variety of funding sources, particularly those for health programs.

AUDITOR GENERAL RECOMMENDATIONS
TO LEGISLATURE

We suggest that the Legislature clarify in statute the responsibilities of the Department of Education and other agencies in providing and financing education and related services for handicapped pupils and procedures for resolving conflicts over responsibilities for these services.

LEGISLATIVE ACTION

Senate Bill 1616, Chapter 1218, Statutes of 1980 classified certain responsibilities of the Superintendent of Public Instruction and directed state departments to develop written interagency agreements for providing special education and related services. This bill detailed procedures for resolving conflicts on these services.

AUDITOR GENERAL RECOMMENDATIONS
TO LEGISLATURE

The Legislature should also establish in law procedures for assuring that the most favorable sources of federal funds are used to finance services for handicapped children. We also suggest that the Legislature initiate discussions with federal policy-makers regarding federal responsibilities for financing mandated special services.

AUDITOR GENERAL RECOMMENDATIONS
TO AGENCY

We recommend that the Department of Education return to a funding mechanism based upon instructional services for the Master Plan for Special Education.

We further recommend that the department adopt these actions:

- Institute specific eligibility criteria for placing students in special education under this program;

LEGISLATIVE ACTION

Assembly Bill 2394, Chapter 1276, Statutes of 1980 established a program to coordinate all available funding sources and to maximize the State's use of available federal funds.

AGENCY ACTION

The department has returned to a funding model based upon instructional services as a result of Senate Bill 1870, Chapter 797, Statutes of 1980. This model recognizes the actual local cost for instructional services and establishes unit funding rates for each local educational agency in the State. In addition to the funding components for instructional services (special classes, resource specialists, designated instruction and services, nonpublic schools) are funding provisions for special transportation, support services, licensed children's institutions, and regional services.

Unable to determine agency response.

AUDITOR GENERAL RECOMMENDATIONS
TO AGENCY

- Provide local educational agencies with improved guidelines for assessing pupil progress;
- Provide these agencies with strengthened standards regarding provision and financing of related services to handicapped pupils.

AGENCY ACTION

The department has worked with the California Regional Resource Center, which is funded by the U.S. Office of Education, to develop a hand-book to assist the school districts in determining reasonable pupil progress.

The department has entered into interagency agreements in which it has included provisions for financing related services. (See also legislative action above.)

FUNDING AND EFFECTIVENESS OF COMPENSATORY EDUCATION PROGRAMS

SUMMARY OF FINDINGS

Title I of the Elementary and Secondary Education Act and the Economic Impact Aid program provide California schools approximately \$400 million annually for supplementary educational services for educationally disadvantaged students. This informational report presents the results of our review of program implementation in nine sample school districts and of recent program evaluations. The review disclosed this information:

- School districts typically allocate Title I funds to schools having high concentrations of pupils from low-income families.
- Students are selected to participate in compensatory education programs if their educational achievement is below that level appropriate for their grade levels.
- During 1978-79, the aggregate direct cost expenditures for the nine school districts we visited were approximately 97 percent of their total compensatory education expenditures. Approximately 85 percent of this amount was spent on the salaries of teachers, instructional aides, and other employees as well as on related fringe benefits.
- Decisions about allocating compensatory education district and school resources are made primarily by those district and school administrators, teachers, and instructional aides directly involved in implementing the compensatory education programs. Parents of these students are also involved, but play principally an advisory role.
- Compensatory education programs provide participating students supplemental instruction in basic skills, such as reading, writing, language, and mathematics.

Based on our review of other studies, students improve academically while participating in elementary compensatory education programs; however, they may not maintain these improvements over the summer or in the absence of compensatory programs at higher grade levels.

IMPLEMENTATION OF BILINGUAL EDUCATION IN CALIFORNIA

SUMMARY OF FINDINGS

We reviewed the implementation of several components of the State's bilingual education legislation, focusing on program compliance as well as pupil identification and placement procedures. We found that most of the 17 schools we visited have not provided required bilingual instructional programs, have not staffed programs with certificated bilingual teachers, and have not included required numbers of fluent-English-speaking pupils in bilingual classrooms. We also found that schools are not using consistent procedures for assessing pupils' proficiency in the English language, partially because of limitations in available language assessment instruments. Moreover, schools are not using available testing instruments correctly in identifying limited-English-speaking and non-English-speaking (LES/NES) pupils. Consequently, pupil identification and classification vary considerably among districts and schools.

AUDITOR GENERAL RECOMMENDATIONS
TO LEGISLATURE

We recommend that the Legislature consider enacting legislation to extend waivers for teachers who have not fully satisfied the bilingual competency requirement. (The current waivers will expire on September 1, 1980.)

We further suggest that the Legislature enact legislation (1) enabling schools to maintain bilingual classroom ratios based upon student population by grade level and (2) requiring that no more than 40 percent of the students enrolled in bilingual classrooms be fluent-English-speaking.

LEGISLATIVE ACTION

Senate Bill 806, Chapter 985, Statutes of 1980 extended teacher waiver requirements until January 1, 1981.

Assembly Bill 507, Chapter 1339, Statutes of 1980 provided more flexible ratios based upon student population by grade level. This bill also extended teacher waiver requirements until 1984.

AUDITOR GENERAL RECOMMENDATIONS
TO AGENCY

We recommend that the Department of Education provide school districts with guidelines clarifying procedures for providing individualized learning programs to LES/NES pupils.

The department should increase its monitoring of districts' compliance with bilingual program requirements.

The department should give technical assistance to school districts.

We recommend that the department (1) monitor school districts to ensure that they are using proper procedures for identifying LES/NES pupils and (2) clarify the criteria for identifying these pupils.

AGENCY ACTION

The department plans to issue guidelines in 1981 clarifying procedures for providing individualized learning programs to LES/NES pupils.

The department plans to increase its monitoring of districts and schools by tracking compliance issues with the assistance of a computerized information system, developing a five-stage system for resolving compliance issues, and making follow-up visits to districts and schools to ensure that compliance issues have been resolved.

As soon as the guidelines are developed, the department will conduct a training program and provide technical assistance to school districts.

The department plans to monitor the 20 largest school districts that have not properly identified LES/NES students. The department has issued a memorandum clarifying the criteria to be used for identifying LES/NES pupils. In addition, workshops have been held regarding language assessment procedures.

REVIEW OF CALIFORNIA SCHOOLS' MILK PROCUREMENT PRACTICES

SUMMARY OF FINDINGS

Federal regulations require that milk be served with meals provided as part of the National School Lunch Program and the School Breakfast Program. Another federal program, the Special Milk Program, provides supplemental milk to children in schools and in nonprofit child care institutions. We reviewed the manner in which California school districts and private schools procure their milk for these programs.

Our review disclosed this information:

- Although the prices school districts pay for milk vary, the greatest volume of milk is purchased at a relatively uniform price;
- The State Department of Education's computer data on milk prices does not provide an accurate basis for comparison of milk prices because of variations in reporting by schools; and
- School districts could improve their milk procurement practices through competitive bidding.

REVIEW OF THE DEPARTMENT OF EDUCATION'S ADMINISTRATION OF CHILD
NUTRITION PROGRAMS

SUMMARY OF FINDINGS

We reviewed the State Department of Education's (SDE's) administration of child nutrition programs. This report addresses the department's performance concerning outreach activities, technical assistance and program monitoring, policy dissemination, and sponsor reimbursements. We found that generally the department has met the administrative goals identified for school nutrition programs in its state plan. However, the department has not promptly informed school districts about all policy determinations and, therefore, has not received all available federal funds.

AUDITOR GENERAL RECOMMENDATIONS
TO AGENCY

We recommend that the Office of Child Nutrition Services immediately announce to sponsors its policy allowing child care centers sponsored by schools to participate in the Child Care Food Program.

AGENCY ACTION

A policy directive was mailed to 120 school districts which sponsor day care centers for children. As a result of this mailing, applications from districts wishing to participate in the program are being received by the department.

REVIEW OF THE DEPARTMENT OF EDUCATION'S ADMINISTRATION OF THE
CHILD CARE FOOD PROGRAM

SUMMARY OF FINDINGS

The Child Care Food Program (CCFP) is a nutrition program which provides federal reimbursement for meals served to children enrolled in day care facilities. This program is administered through the Department of Education's Office of Child Nutrition Services (OCNS). We found that this office's administration of the CCFP has resulted in extensive delays in processing program applications and change requests. Additionally, the office has directed minimal effort toward promoting the program. As a result of processing delays and limited program information dissemination, children eligible for the CCFP are not being served. It is estimated that at least 136,600 eligible children in California are not participating in this program. By not increasing participation, the OCNS is failing to maximize the receipt of available federal funds. We estimate that meals for these children could have been funded by federal monies at a level of approximately \$30.5 million annually.

Our review also indicated that the OCNS has not provided the CCFP sponsors sufficient technical assistance or policy and guidance materials. Consequently, sponsors have misinterpreted program policy and have had difficulty complying with program requirements. Reimbursements have been delayed, claims have been rejected, and policy has been inconsistently applied. These administrative problems have been costly for sponsors of the CCFP and have discouraged potential sponsors from applying for the program.

AUDITOR GENERAL RECOMMENDATIONS
TO AGENCY

AGENCY ACTION

We recommend that the Department of Education take these actions:

- Immediately eliminate the backlog of applications and change requests for the Child Care Food Program;

To process the backlog of applications and change requests, the department shifted personnel from the National School Lunch Program, the School Breakfast Program, Field Services, and Administrative Services to the Child Care Food Program.

AUDITOR GENERAL RECOMMENDATIONS
TO AGENCY

- Immediately announce to sponsors new procedures regarding change requests;
- Simplify the application and change request review procedures, in accordance with U.S. Department of Agriculture (USDA) recommendations;
- Provide adequate technical assistance to current and potential sponsors to forestall problems with incorrect and incomplete applications and change requests;
- Assure sufficient clerical support to the CCFP unit;
- Immediately develop an outreach plan to implement the new federal regulations and ensure maximum participation in the CCFP;

AGENCY ACTION

New procedures regarding change requests were discussed at a series of workshops conducted statewide. Also, the department prepared a bulletin to explain all aspects of the revised change request procedures.

Change request review procedures have been revised in accordance with USDA recommendations. As a result of these changes and the shifting of staff from other child nutrition programs, processing time has been significantly reduced.

Statewide workshops have been conducted to provide sponsors and potential sponsors with information concerning application procedures. Also, technical assistance is provided to any sponsor whose application for the Child Care Food Program is incomplete.

Clerical staff has been temporarily shifted from other programs. Department management stated that the permanent redirection of clerical staff will cause a shortage of clerical staff in other child nutrition programs.

The department has met all requirements for implementing an outreach plan to meet the new federal regulations and to ensure maximum program participation.

AUDITOR GENERAL RECOMMENDATIONS
TO AGENCY

AGENCY ACTION

- | | |
|---|--|
| - Work with state and county child care licensing agencies to assure that all applicants for child care centers and family day care homes receive information on current sponsors and their locations; | Department management stated that it has neither the fiscal nor staff resources to fully comply with our recommendation. |
| - Submit a plan to the Legislature detailing actions to be taken to comply with the new federal CCFP regulations. Also, identify specific staffing and other resources needed to implement these regulations; | A detailed plan to implement the new federal regulations has been developed. |
| - Develop and disseminate a policy manual which would provide routine technical assistance to CCFP sponsors and applicants. The department should solicit comments from sponsors in developing these policies and procedures; | The department formed a committee composed of sponsors, advocates, and department personnel to review the policy manual. |
| - Provide adequate on-site technical assistance to sponsors and providers, especially to new sponsors and providers and family day care home operators; | Technical assistance to sponsors and providers is being increased within staffing limitations. |
| - Convene forums regularly between responsible OCNS staff, sponsors, and providers to ensure the sharing of technical expertise; | The department has developed plans for regularly scheduled meetings with sponsors and advocates on a statewide basis. |

AUDITOR GENERAL RECOMMENDATIONS
TO AGENCY

- Increase coordination between the Child Care Food Program unit and the Office of Field Services.

AGENCY ACTION

A system of referrals and reports has been established between the field staff and Child Care Food Program staff.

A REVIEW OF THE DEPARTMENT OF EDUCATION'S PROCEDURES FOR ALLOCATING
CHILD CARE EXPANSION FUNDS

SUMMARY OF FINDINGS

The Department of Education's Office of Child Development (OCD) administers a variety of child care programs. The 1979-80 Budget Act provided approximately \$124.7 million in child care funding, approximately \$4.4 million of which was designated for expansion of child care programs.

Our review of the Department of Education's allocation of child care expansion funds indicated that the OCD needs to improve existing allocation procedures. Although the OCD implemented an extensive process for reviewing applications for child care expansion funds, it did not provide applicants a comprehensive request for proposal. In addition, it did not develop adequate cost standards or use all available cost information in evaluating proposals. Additionally, the OCD evaluated applications which did not meet the request for proposal specifications. Further, expansion funds could have been awarded in a more timely manner.

As a result of these procedural deficiencies, local agencies were unaware of all funding criteria when designing program proposals, and some local agencies and the OCD incurred unnecessary expenses. Also, the OCD had no assurance that funds were awarded to the most cost-effective programs. In addition, because of the time required to review applications and award funding, a smaller portion of expansion funds were allocated than initially planned.

AUDITOR GENERAL RECOMMENDATIONS
TO LEGISLATURE

We suggest that the Legislature clarify the importance of cost-effectiveness as a priority in awarding any future child care expansion funds.

LEGISLATIVE ACTION

No action taken.

AUDITOR GENERAL RECOMMENDATIONS
TO AGENCY

We recommend that the Office of Child Development clearly identify all funding priorities, rating criteria, and agency funding limitations in future requests for proposals for child care expansion funds. Further, the office should improve its method for evaluating child care program costs by developing a formal and uniform cost analysis procedure for use in reviewing applications for child care contracts.

AGENCY ACTION

The Office of Child Development has modified its rating criteria and request-for-proposal format for fiscal year 1980-81 expansion funds. The changes made include (1) clearly identifying funding priorities and rating criteria and (2) placing a higher priority on program cost-effectiveness.

OPPORTUNITIES TO IMPROVE THE STATE YOUTH EMPLOYMENT PROGRAM

SUMMARY OF FINDINGS

We reviewed the State Youth Employment Program, which serves unemployed youth and develops information on more effective approaches in dealing with youth unemployment. Administered by the California Employment and Training Advisory Office (CETA Office) within the Employment Development Department (EDD), the program conducts demonstration projects that employ and train unemployed, disadvantaged youths.

Most of the projects within the program met specified enrollment and employment objectives. We noted, however, that evaluations of the program were impaired because of the lack of defined, measurable project objectives; weaknesses in the design and methodology of the evaluation; and unreliable and inaccurate project data. These problems limited the EDD's ability to develop reliable information and to assess the relative effectiveness of demonstration approaches. Additionally, project selection and monitoring procedures did not ensure that projects provided needed information or fulfilled demonstration objectives in grant agreements.

We further noted that program funds provided by the State and the Federal Government have not been fully utilized. Of the \$16 million available to the program during its first two years, approximately \$12 million (75.3 percent) was committed to projects; \$8.7 million of this amount (54.3 percent) was expended. Of the \$7.3 million in unexpended funds, \$3.4 million was committed to projects and \$3.9 million was carried forward and added to the 1979-80 fiscal year allocation. Although these unexpended state and federal funds can be used in future years, the program has not maximized the use of budget resources and has missed opportunities to provide services to unemployed youth.

AUDITOR GENERAL RECOMMENDATIONS
TO AGENCY

AGENCY ACTION

We recommend that the Employment Development Department and the CETA Office adopt these actions:

- Ensure that measurable objectives and related performance standards exist for all demonstration projects and that project objectives and performance standards are a part of each project agreement;
- Improve the quality and reliability of project records and data;
- Improve project and program evaluation design and methodology. Future evaluations should assess cost-effectiveness and the relative effectiveness of different approaches;
- Develop adequate procedures to ensure the selection of projects that demonstrate new and innovative approaches to youth employment. The department should identify information needs and develop a knowledge development plan to address those needs;
- Ensure that monitoring procedures identify and correct deviations in implementing approved demonstration approaches.

The CETA Office and the EDD's Evaluation Division review each youth demonstration project to ensure that each has measurable objectives and related performance standards.

The EDD is reviewing its entire data collection system. Training will be provided to staff as necessary and an automated management information system will be implemented by June 1981.

The EDD is reviewing and modifying project and program design and evaluation methodology.

New monitoring procedures are being established to ensure that projects fulfill demonstration objectives.

The EDD anticipates obligating all State Youth Program funds available this fiscal year.

AUDITOR GENERAL RECOMMENDATIONS
TO AGENCY

AGENCY ACTION

In addition, management of the CETA Office should take these actions to ensure that budgeted program resources are fully maximized:

- Develop timely proposal review and approval procedures to ensure expeditious processing of project proposals. A system should be developed to ensure that established processing milestones and time frames are accomplished;
- Prepare written monitoring standards and procedures that (1) specify the frequency and timing of monitoring visits, (2) require identification of project weaknesses and reasons for poor performance, (3) mandate development of corrective action plans, and (4) require sufficient follow-up and review to ensure that improvements are made.

The CETA Office is revising its process for selecting projects. The new process will rely more heavily on local planning and will involve local employment and training agencies.

The new monitoring procedures mentioned above will address this recommendation.

A STUDY OF THE MAIL-PAY SYSTEM FOR DELIVERING UNEMPLOYMENT
INSURANCE BENEFITS

SUMMARY OF FINDINGS

In this informational report, we present our comparison of the new method of delivering unemployment insurance (UI) benefits by mail (mail-pay) with the former method of claimants collecting their benefits in person at Employment Development Department (EDD) offices.

Our comparison of the two systems in 40 offices indicated that the average duration of UI claims increased slightly since the introduction of the mail-pay system. Nevertheless, there was a small decrease in the rate at which claimants exhausted their maximum entitlements. Further, we observed a decrease in the rate of overpayments during the study period. But, because of a lag in reporting time, further study is required to adequately assess changes in overpayments.

We also discovered increases in the number and rate of inquiries into claimant eligibility related to questionable UI claims. Additionally, we noted an increase in the number and average length of time EDD field office staff devoted to Periodic Eligibility Reviews, which are conducted to review claimant eligibility and to assist claimants in returning to work. However, no significant change was found in the incidence of claimants returning to work. Under the mail-pay system, we also found a marginal increase in administrative costs, attributable to greater use of supplies and forms.

We also reviewed the department's effectiveness in achieving its goals for the mail-pay system. We found that the EDD redirected its field office staff from frequent and brief processing of UI claim documents to increased Periodic Eligibility Reviews. In addition, the EDD has decreased by 78 percent the number of claimant visits to its offices, thereby substantially reducing (1) time and transportation costs to claimants and (2) vehicle and foot traffic at these offices. More analyses are necessary to assess long-term effects of the mail-pay system.

REVIEW OF THE CALIFORNIA DEPARTMENT OF FOOD AND AGRICULTURE'S
PESTICIDE REGULATORY PROGRAM

SUMMARY OF FINDINGS

We reviewed the California Department of Food and Agriculture (CDFA) pesticide regulatory program, which controls the use of pesticides through product registration and evaluation, use restrictions, and investigations. The program is primarily supported by the pesticide mill tax and the product registration fee.

We found that the department has not successfully established an ongoing reevaluation program. Some registered pesticides have not been evaluated to determine their safety and effectiveness for use in California. Therefore, the department cannot ensure that the use of potentially harmful pesticides is being eliminated. We also found that the CDFA does not monitor the pesticide-related illness notification systems and that the county agricultural commissioners are unable to promptly and thoroughly investigate pesticide illness cases because these systems are inadequate. Finally, the CDFA's monitoring of the collection of the pesticide mill tax is inadequate. There have been too few department audits of registrants. There are insufficient audit selection criteria, a lack of detailed sales information, and an insufficient staff.

AUDITOR GENERAL RECOMMENDATIONS
TO LEGISLATURE

We recommend that the Legislature provide the CDFA's director with the authority to require detailed sales data.

LEGISLATIVE ACTION

No action taken.

AUDITOR GENERAL RECOMMENDATIONS
TO AGENCY

We recommend that the CDFA take the following actions:

- Institute ongoing reevaluation procedures;

AGENCY ACTION

The CDFA plans to establish an Operational Protocol Manual by early 1981. This Protocol will include ongoing reevaluation procedures.

AUDITOR GENERAL RECOMMENDATIONS
TO AGENCY

AGENCY ACTION

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| - Monitor the pesticide-related illness notification system; | The department has given the Department of Industrial Relations sufficient funds to hire clerical help to eliminate the backlog. Doctor reports are now being received on a timely basis. |
| - Increase the number of audits of pesticide registrants and expand the criteria for selecting these registrants; | An additional auditor was added this year by the department and the number of audits will be increased. Selection of auditees will be made on a composite of characteristics. |
| - Include evaluation comments with product files and note the registration number on the data files. | The department has adopted these procedures for all new product registrations. |

REVIEW OF DEPARTMENT OF FORESTRY AERIAL FIREFIGHTING CONTRACTS WITH
COMMERCIAL AIRTANKERS

SUMMARY OF FINDINGS

We reviewed the aerial firefighting contracts between the California Department of Forestry (CDF) and commercial airtanker operators as well as the role of the California Air National Guard in aerial firefighting.

We found that the CDF has implemented procedures to effectively control costs incurred in aerial firefighting contracts. Primarily, two types of costs are involved: the fee paid to the contractors for maintaining the daily availability of aircraft and the fee paid to the contractors for their flight time. The CDF has controlled the daily availability fee by establishing the length of the period of availability, by seeking competitive bids on this fee, and by ensuring that contractors demonstrate their readiness to fly.

Likewise, the CDF regulates contractors' flight time since contractors do not fly to a fire until dispatched by CDF personnel. The CDF personnel also informally monitor the contractors' time in flight. Further, through the use of a preplanned system for dispatching aircraft, the CDF minimizes costs and response time. Our tests and observations also verified that contractors' time in flight and time in responding to wildland fires were reasonable.

In examining the role of the California Air National Guard in aerial firefighting, we found that the guard is mobilized only when suitable commercial airtankers are unavailable to respond to emergency fire situations. However, the response time of these aircraft exceeds that of the commercial airtankers because of the time required to load the firefighting equipment onto the aircraft, delays in assembling the personnel trained to operate the equipment, and the procedures for dispatching the aircraft.

COST SAVINGS AVAILABLE THROUGH VOLUME PURCHASING IN THE MEDI-CAL PROGRAM

SUMMARY OF FINDINGS

Medi-Cal is a \$4.1 billion program funded jointly by the State and Federal Government. The program provides health services to Medi-Cal eligibles and low-income Californians. Under the program, beneficiaries are entitled to a variety of services, including prescription drugs, eyeglasses, durable medical equipment, medical transportation services, and laboratory services.

In an attempt to reduce the costs of providing these services, the Department of Health Services has considered volume purchasing. Although the department has formulated proposals for purchasing prescription drugs, eyeglasses, and laboratory services in volume, none has been implemented.

We reviewed the department's volume purchasing studies and compared current Medi-Cal commodity prices with prices paid by other government organizations which contract for these commodities. We calculated that by volume purchasing the department could save

- \$5.6 million to \$6.9 million annually on prescription drugs;
- Approximately \$3 million annually on eyeglasses;
- Approximately \$7.5 million annually on laboratory services.

AUDITOR GENERAL RECOMMENDATIONS
TO AGENCY

We recommend that the Department of Health Services undertake pilot projects to evaluate the feasibility of volume purchasing prescription drugs, eyeglasses, and laboratory services. Each project should evaluate the barriers to volume purchasing, such as administrative procedures and provider concerns.

AGENCY ACTION

During fiscal year 1980-81, the Department of Health Services submitted an unsuccessful budget change proposal to fund a volume purchase pilot project for the Medi-Cal program. Department officials state they will again request funding for the pilot project as part of the fiscal year 1981-82 budget proposal.

THE IMPACT OF STAFFING SHORTAGES ON THE IDENTIFICATION AND
RECOVERY OF MEDI-CAL OVERPAYMENTS

SUMMARY OF FINDINGS

Medi-Cal is a \$4.1 billion program, which is funded jointly by the State and the Federal Government. This program provides health services to Medi-Cal eligibles and low-income Californians. An average of approximately 2.9 million persons qualify for services each month. Medi-Cal is administered by the Department of Health Services, which has a variety of responsibilities, one of which is identifying and recovering Medi-Cal overpayments. An overpayment identification and recovery system administers this responsibility through the activities of seven program units. At a cost of \$12.7 million, the system generated more than \$58 million in recoveries during fiscal year 1978-79.

Our review disclosed that system staff reductions since the passage of Proposition 13 in June of 1978 have hindered the identification and the recovery of Medi-Cal overpayments. Specifically, cuts in the staffing of the hospital audit function have caused the Medi-Cal program to forego the opportunity of collecting between \$2.6 million and \$7 million in net recoveries. In addition, we found that staffing shortages have contributed to inefficiencies in the operation of other system components. In three units, a substantial backlog of cases has accumulated. This backlog has caused delays in setting up collection cases and in conducting investigations. Consequently, the delays have reduced recoveries and have jeopardized the successful prosecution of fraud.

AUDITOR GENERAL RECOMMENDATIONS
TO LEGISLATURE

We suggest that the Legislature consider increasing the staff of the Department of Justice Medi-Cal Fraud Unit.

LEGISLATIVE ACTION

The 1980-81 Governor's Budget proposed increasing the Medi-Cal Fraud Unit staff by 34 positions. These positions, which receive 90 percent federal funding, were approved.

AUDITOR GENERAL RECOMMENDATIONS
TO AGENCY

We suggest that the Department of Health Services prepare a report to the Legislature in time for 1980-81 budget hearings. This report should include (1) a plan for increasing the staffing of the hospital audit function and (2) alternative staffing levels for other system components, including staffing costs as well as the effects of these levels on case backlogs, the length of time to complete a case, and the potential for increasing recoveries.

AGENCY ACTION

The Department of Health Services requested 61 additional permanent positions and 6 two-year limited-term positions in the fiscal year 1980-81 budget process. The Legislature approved the following additional positions:

- Six two-year limited-term positions to eliminate backlog;
- Thirteen positions to increase the number of field audits of hospitals;
- Nine positions to establish one additional multi-disciplinary audit team.

In addition, the Department of Health Services plans to submit as part of its 1981-82 budget proposal a comprehensive staffing plan which will address the Investigations Branch, Recovery Section, and other organizational entities of the overpayment identification and recovery system.

A REVIEW OF COMPUTER SCIENCES CORPORATION AND THE DEPARTMENT OF
HEALTH SERVICES MEDI-CAL FISCAL INTERMEDIARY OPERATIONS

SUMMARY OF FINDINGS

In 1978, the Department of Health Services awarded the Computer Sciences Corporation (CSC) a contract for processing and paying Medi-Cal claims. This new contract was designed to increase the contractor's financial responsibility, to establish a more efficient claims processing system, to improve the State's ability to identify program abuses, and to maximize federal reimbursement. We estimate that the 5½-year contract cost the State and the Federal Government approximately \$130 million.

With our consultants, Deloitte Haskins & Sells, we reviewed the CSC's compliance with contract requirements. We found that the CSC does not adhere to certain contract procedures:

- The CSC's automated processing system is not being completely tested before various claim types are put into operation;
- For four of the first nine months of operation, the CSC failed to meet the 18-day average monthly time standard for processing all claims;
- The number of claims suspended for more than 30 days exceeds contractual requirements. These suspensions are caused by the department, the CSC, and the providers;
- In three of the CSC's four subsystems with reporting responsibilities, all required reports are not produced accurately and promptly;
- The CSC has not included a sufficient number of edits and audits within its claims processing system to ensure appropriate and reasonable payments to Medi-Cal providers.

We found that the department does not provide the CSC with certain eligibility and medical information that it needs to make the system work properly. Further, the department does not effectively exercise its contract authority to improve the CSC's performance.

AUDITOR GENERAL RECOMMENDATIONS
TO AGENCY

We recommend that the Department of Health Services increase its contract monitoring and oversight activities to improve the efficiency and effectiveness of the claims processing system. Specifically, the department should:

- Delay the addition of the physician and medical supplier claim types until all testing procedures outlined in the contract have been followed. Further, outstanding system trouble reports for the other claim types should also be corrected;
- Assure that management reports necessary to measure the CSC's compliance and performance are received in a timely manner, are accurate, and are acted upon when problems are identified. Priority should be given to claims processing times and suspended claims data;

AGENCY ACTION

As of November 3, 1980, the Department of Health Services reports the following status of the Auditor General's recommendations:

The Department of Health Services chose not to delay adding the physician and medical supplier provider types. The CSC began processing these claim types on June 1, 1980. The department reported correction of all outstanding system trouble reports. The department continues its review of three items involving crossover claims, asterisked procedures, and share of cost claims. Also, the department intends to re-test certain problem areas during its post-implementation review.

The department is monitoring report timeliness, and the CSC's performance on an ongoing basis. Accuracy of key reports, including those on processing times and suspended claims are monitored continuously; lower priority reports are reviewed as needed. Additional reports which will assist the department in identifying trouble spots are being developed.

AUDITOR GENERAL RECOMMENDATIONS
TO AGENCY

- Monitor the operation of system edits and audits to ensure that they are turned off only upon order by the department, when the need is documented, and that they are turned on when required;
- Monitor contract charges for claims processing, system installation, and change orders. Where access to records is an issue, the provisions that allow for audit access to the contract should be tested;
- Impose liquidated damages when contract noncompliance is identified to motivate the CSC's correction and compliance.

AGENCY ACTION

The Department of Health Services has instituted a formal system for monitoring the operational status of edits and audits.

Department monitoring staff state that they will continue to review systems and processes which produce reports on claims processing charges for internal consistency. Charges are paid only after state review and approval of appropriate contract deliverables. As necessary, contract audit access provisions will be tested.

Through July 1980, the department collected \$349,500 in liquidated damages. Damages ranging up to \$500 a day have been imposed for various areas of nonperformance.

DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT: IMPROVEMENTS ARE
NEEDED IN THE MANAGEMENT AND ADMINISTRATION OF LOAN AND GRANT
PROGRAMS

SUMMARY OF FINDINGS

The Department of Housing and Community Development (HCD) administers loan and grant programs to promote and provide safe, sanitary, and affordable housing to California citizens. For the three programs we reviewed, the HCD has made 68 individual loans and grants valued at \$7.8 million in state funds. Departmental records show that these awards have been made to assist in the development of 2,873 homes for families with low and moderate incomes. To date there have been no loan defaults or foreclosures, although there are numerous cases of late payments and loan extensions.

We found many problems in the management and administration of the loan and grant programs:

- The HCD lacks sufficient systems and procedures to ensure full compliance with program statutes, regulations, and procedures relating to the use of loans and grants. For example, the HCD allocates funds to some projects without requiring them to meet disbursement requirements. Also, the department does not always ensure that loans are adequately secured or that projects adhere to conditions established by loan and grant committees.
- The HCD does not routinely enforce reporting requirements for projects and has not developed performance standards to measure the progress of the loan and grant projects. As a result, the HCD does not effectively monitor and evaluate the progress of projects or assess program achievements.
- The HCD has not fully and accurately portrayed the accomplishments of the loan and grant programs in its annual reports to the Legislature. These HCD reports cite planned rather than actual accomplishments and contain inaccurate information and questionable measures of effectiveness.

The HCD has recognized many of the problems detailed in this report and has taken some corrective action to improve administrative procedures and management controls, but additional improvements are needed.

AUDITOR GENERAL RECOMMENDATIONS
TO AGENCY

AGENCY ACTION

We recommend that the Department of Housing and Community Development adopt these actions to improve its administration of loan and grant programs:

- Develop and implement comprehensive systems and procedures for reviewing loan and grant applications and for disbursing funds;
- Institute uniform procedures to monitor and assess the effectiveness of projects;
- Accurately report program accomplishments to the Legislature.

The HCD has developed and implemented improved procedures for disbursing loan and grant funds. In addition, the department is currently developing new, comprehensive application review and approval procedures.

The HCD has revised project reporting forms to collect better information to assess and evaluate project effectiveness. The new reports also improve the HCD's ability to monitor the activities of loan and grant recipients.

The HCD has indicated that future reports will contain information on project development and accomplishments and will clearly state changes in objectives.

REVIEW OF THE CALIFORNIA HOUSING FINANCE AGENCY

SUMMARY OF FINDINGS

We have reviewed the activities of the California Housing Finance Agency (CHFA) based primarily upon examination and evaluation of the agency's annual report. The California Housing Finance Agency was created to meet the housing needs of persons of low or moderate income. To accomplish this, the agency borrows money in the municipal bond market and operates a variety of programs of lending and insuring mortgages and loans to make them available at lower interest rates. The agency is able to borrow money at favorable interest rates because the interest paid on money borrowed is tax exempt. The agency is to use the difference between the cost at which it borrows money and the rate at which it lends money to finance its operations and to repay the start-up loans.

Agency operations include several programs. The Multi-Unit Loan Program provides mortgage loans for the construction or rehabilitation of housing developments of five or more rental units. The objectives of the Home Ownership and Home Improvement Loan Program (HOHI) include (1) individual housing rehabilitation, (2) neighborhood revitalization, (3) home ownership for those priced out of the housing market, and (4) new construction. Loans are made for purchasing or rehabilitating homes or for refinancing with rehabilitation. Loans totaling approximately \$190 million were reserved and delivered in the HOHI program for 4,070 units.

FOLLOW-UP REVIEW OF THE STATE PERSONNEL BOARD'S ADMINISTRATION OF
THE CAREER OPPORTUNITIES PROGRAM

SUMMARY OF FINDINGS

We conducted a follow-up review of the State Personnel Board's (SPB's) administration of the Career Opportunities Development (COD) program. Our review disclosed that the SPB has complied with all recommendations made in the Auditor General's Report Number 706.1. Also, available data indicate that the Work Incentive (WIN) On-The-Job program places a substantially greater percentage of clients into permanent positions than does the WIN Career Opportunities Development program. However, different methods used by the agencies to calculate placement rates may make the data incomparable. In addition, we found that the Employment Development Department (EDD), in cooperation with the SPB, has begun working on a long-range study which will provide management information on client retention rates within selected jobs programs, including the COD program. The agencies, however, do not currently plan to include reasons for not placing clients. Because of the above-mentioned data limitations, a comprehensive comparison of the administrative costs and the relative efficiencies of the jobs programs of the SPB and the EDD is not currently possible.

AUDITOR GENERAL RECOMMENDATIONS
TO LEGISLATURE

We recommend that the Legislature authorize a review of the Employment Development Department and the State Personnel Board jobs program administration once the agencies have developed comparable transition rate data and program retention rate data.

LEGISLATIVE ACTION

No action can be taken until the EDD and the SPB have developed the data.

* This report also applies to the Employment Development Department, Governor's Budget Page HW 130.

AUDITOR GENERAL RECOMMENDATIONS
TO AGENCY

We recommend that the State Personnel Board and the Employment Development Department develop comparable data on jobs program transition (placement) rates. The agencies should jointly present this data to the Legislature by May 1, 1980, in time for budget hearings.

Further, the board and the department should include in the retention study an analysis of the reasons clients were terminated before transition.

AGENCY ACTION

Prior to the first hearing on the SPB budget, the SPB notified the Joint Legislative Budget Committee that the board had agreed with the EDD on a method for developing comparable data on jobs program transition (placement) rates. A joint report on these transition rates is scheduled for release in January 1981.

In a meeting held subsequent to the issuance of the Auditor General's report, staff members of the two agencies and the Auditor General's office agreed that an analysis of reasons clients were terminated before transition could best be presented in a separate, ongoing study. The agencies will issue their first report by March 1, 1981.

OPPORTUNITIES TO IMPROVE THE EFFICIENCY AND EFFECTIVENESS OF THE
CIVIL SERVICE SELECTION PROCESS

SUMMARY OF FINDINGS

A study of the efficiency and effectiveness of the State's Civil Service selection process conducted by Ralph Andersen and Associates revealed that the current centralized examination process administered by the State Personnel Board does not sufficiently meet the selection needs of the State. The centralized examination system is designed to process very large systemwide examinations, yet we found that:

- The overall organization and systems of the examination process are not consistent with the size and scope of the examination workload;
- The system design of the centralized examination system is efficient only for very large examinations, which are a minority of the workload. Other examinations take an excessively long time to process and there has been a backlog of examinations waiting to be processed;
- Distribution of available resources has not been efficiently or effectively applied to examination workload, and the board is further hampered by a high turnover of staff;
- There is a need for the board to monitor more effectively the total selection process and develop more ongoing system improvements and training.

AUDITOR GENERAL RECOMMENDATIONS
TO AGENCY

We recommend that the State Personnel Board commence a pilot decentralization program to demonstrate that the State's examination process can be significantly improved without a substantial increase in resources. The board should closely monitor the test program and report its findings on specific measures to the Legislature. If the pilot program is successful, a complete decentralization program should be implemented.

AGENCY ACTION

The State Personnel Board concurred that a decentralized examination program which delegates increased selection responsibilities to departments should be implemented. With necessary legislative approval and budget approval, the board intends to initiate its examination delegation pilot project.

AUDITOR GENERAL RECOMMENDATIONS
TO AGENCY

We also suggest that the board place more emphasis on its control responsibilities and on the development of monitoring systems, examination system improvements, and training.

AGENCY ACTION

No action taken. However, the board's pilot project includes increased monitoring of department examination activities.

CHANGES IN THE COMPOSITION OF LOCAL GOVERNMENT REVENUE SINCE
PROPOSITION 13

SUMMARY OF FINDINGS

Local government financing has changed dramatically since the passage of Proposition 13 in June 1978. Proposition 13, Article XIII A of the State Constitution, limited the ad valorem tax on real property and mandated that local governments could impose special taxes only with the approval of two-thirds of the voters. To compensate for the reduction in property tax revenue in fiscal year 1978-79, the Legislature provided state "bailout" money. The Legislature subsequently enacted long-term financing legislation in 1979 which altered the financing of various government services. Additionally, in November 1979, the passage of Proposition 4, Article XIII B of the State Constitution, changed local government financing by limiting the growth in appropriations of local governments to changes in the cost of living and in population.

In this informational report, we noted that since the passage of Proposition 13, local governments have expanded their use of discretionary revenue sources. These governments are increasing charges for services to reflect the full costs or a greater portion of the costs of providing services, thus, reducing or eliminating subsidies.

We found that county revenue from discretionary sources increased approximately 25 percent in fiscal year 1978-79 from the preceding year. Cities' use of discretionary revenue increased approximately 13 percent in the same time period. Discretionary revenue, however, still constitutes a relatively limited portion of total county and city revenue.

We also analyzed the differences between property tax revenue projections made for the Conference Committee for Assembly Bill 8 in 1979 and the actual tax levies in fiscal year 1979-80. We found that actual tax levies increased approximately 13 percent, as opposed to the 10 percent increase estimated for the Conference Committee for Assembly Bill 8. As a result, total statewide property taxes are approximately \$150 million higher than originally projected for fiscal year 1979-80. The different units of local governments will receive varying benefits from the increased property taxes.

SPECIAL DISTRICTS: OPPORTUNITIES FOR BENEFITS THROUGH
JURISDICTIONAL CHANGES

SUMMARY OF FINDINGS

Special districts are limited purpose local governments which provide a variety of services, ranging from fire protection to mosquito abatement and control. Enterprise districts generate revenue through service or user fees; nonenterprise districts rely primarily on property taxes for revenue. Our study of special districts revealed that jurisdictional changes--which can include either a change in a district's organization or a consolidation of local agency functions--can benefit the district by reducing operating costs, improving coordination of personnel and facilities, and increasing operational capacity.

However, 72 percent of the districts surveyed have not studied opportunities for changes in organization. Only 14 percent of the districts submitted proposals to Local Agency Formation Commissions for approval since July 1, 1978. Approximately 48 percent of the districts surveyed currently maintain some type of functional consolidation agreement.

In view of Proposition 13's reduction of property tax revenues and the effects upon the operations of some special districts, the benefits available to special districts through jurisdictional changes warrant an in-depth review.*

* Because there are numerous types of special districts performing a variety of services throughout California, no sweeping generalizations regarding cost savings or other benefits can be made. Instead, each district's potential to benefit from jurisdictional changes must be evaluated individually.

AUDITOR GENERAL RECOMMENDATIONS
TO LEGISLATURE

We suggest that the Legislature take these actions:

- Require that studies be conducted to determine which special districts would benefit most by adopting jurisdictional changes;
- Require that detailed studies comparing alternative jurisdictional structures be conducted once the special districts which would benefit most from such changes have been determined;
- Consider allowing the counties to determine the most appropriate agencies for conducting these studies;
- Establish a deadline for the completion of studies;
- Assign a state or local agency to ensure that these studies are conducted properly.

LEGISLATIVE ACTION

Although legislative members introduced three bills which addressed some of these issues, only Assembly Bill 2806, Chapter 1145, Statutes of 1980 was enacted into law. Assembly Bill 2806 imposed deadlines on Local Agency Formation Commissions for accepting applications for jurisdictional changes.

IMPROVEMENTS WARRANTED IN LICENSING OF RESIDENTIAL CARE FACILITIES
FOR CHILDREN

SUMMARY OF FINDINGS

The Department of Social Services (DSS) is responsible for licensing, monitoring, and regulating residential care facilities for children. The department is to ensure that facilities providing nonmedical residential care are adequate, safe, and sanitary and that residents receive quality care.

We found that the Department of Social Services has inadequately monitored the standards of care in residential facilities for children. Specifically, the DSS has not ensured that licensed residential care facilities have been fully evaluated. Approximately 50 percent of the facilities licensed by the State have either not been evaluated since they were first licensed or have not been evaluated since January 1, 1979. Also, county agencies have improperly cited facilities for violations of regulations and have failed to conduct unannounced visits to evaluate facilities out of compliance with laws and regulations. Further, the department has not fully documented or promptly conducted all complaint investigations.

In addition, we found that criminal record reviews have not been performed for more than half of the facility staff requiring such reviews. Certain individuals with felony and misdemeanor convictions have been allowed to work in facilities licensed by the State and the county even though they have not been granted exemptions to do so. Because of this inadequate review of personnel, children are exposed to unnecessary risks that may endanger their physical and mental health.

Finally, our review disclosed that California does not have an information system that enables placement agencies and concerned citizens to select a community care facility on the basis of quality of care. Such a system is required by the Health and Safety Code; however, the department has not implemented this requirement because of difficulties in constructing a system for rating various levels of facilities.

AUDITOR GENERAL RECOMMENDATIONS
TO LEGISLATURE

We suggest that the Legislature consider requiring the Department of Social Services to submit plans to implement a comprehensive information system. This system should provide placement agencies and other concerned parties with readily available information to assist in selecting residential facilities.

AUDITOR GENERAL RECOMMENDATIONS
TO AGENCY

We recommend that the Department of Social Services determine which facilities do not have current annual evaluations and conduct such evaluations as required.

We recommend that the Department of Social Services ensure that county licensing agencies:

- Cite the regulations violated and provide a full description of the deficiency;
- Provide facility operators with written notices of deficiencies and indicate the date by which the deficiencies must be corrected;
- Conduct unannounced visits to facilities.

LEGISLATIVE ACTION

The Legislature has not yet taken action on this request. However, the department has requested a redesign of the Facility Information System to store and tabulate additional information on residential facilities.

AGENCY ACTION

The department requested staff augmentation for fiscal year 1981-82 to conduct annual facility evaluations.

The department established a review unit to monitor county licensing activities.

AUDITOR GENERAL RECOMMENDATIONS
TO AGENCY

We recommend that the department assess civil penalties to motivate facilities to correct deficiencies.

We recommend that the Department of Social Services require its district staff and county personnel to comply with complaint procedures by maintaining adequate records of investigations and by investigating complaints within ten days.

We recommend that the department:

- Require criminal record reviews for all personnel who regularly provide service to or who are employed by a residential facility caring for children;
- Require that each facility serving children annually submit personnel lists so that the department may more readily identify persons requiring criminal record reviews;
- Comply with existing laws and regulations by granting or obtaining exemptions for facility personnel or by ensuring that unqualified facility personnel are prohibited from working in residential facilities.

AGENCY ACTION

Civil penalty procedures have been modified to ensure maximum efficiency and effectiveness.

A directive was issued to both district and county licensing staff establishing complaint investigations as a top priority.

The department issued a directive requiring licensing agencies to perform criminal record reviews of all personnel.

The department is reviewing action which will require licensees to provide updated personnel rosters at the time of license renewal.

The department has established a control system to ensure that criminal records are properly reviewed. This action has been given top priority.

MONITORING NEEDED IN THE STATE SUPPLEMENTARY PROGRAM

SUMMARY OF FINDINGS

California's State Supplementary Program provides public assistance benefits to aged, blind, or disabled persons. Under contract with the State of California, the federal Social Security Administration (SSA) administers the program. The SSA is liable to reimburse the State for certain erroneously spent state funds.

The SSA performs quality assurance reviews on samples of payments made to recipients to check the accuracy of eligibility determinations and payment amounts. To make sure that the SSA spends State Supplementary Program monies appropriately, the Department of Social Services (DSS) then reviews a random subsample of cases selected from the federal sample. The department reports errors to the SSA, which then evaluates the findings and adjusts the error rate, thus increasing the federal reimbursement.

We found that the DSS does not examine large enough subsamples of payments and does not participate in establishing deadlines for submitting its findings to the SSA. We estimate that the State has foregone the opportunity to recover approximately \$24.2 million from the Federal Government for erroneous payments for the period from July 1975 through March 1979 as a result of these problems.

AUDITOR GENERAL RECOMMENDATIONS
TO AGENCY

AGENCY ACTION

We recommend that the Department of Social Services take the following actions:

- Negotiate with the Social Security Administration to use the DSS subsample error rates to project errors in the federal samples;

The Department of Social Services was successful in its negotiations with the Social Security Administration (SSA) for use of a regression methodology for the Supplemental Security Income/State Supplementary Program, and the Secretary of Health and Human Services has approved its use. The SSA has indicated that it expects to be able to offer regression for the review period beginning October 1, 1980, and California has given notice of its intention to use regression for this period if it is available.

AUDITOR GENERAL RECOMMENDATIONS
TO AGENCY

AGENCY ACTION

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| - Review complete federal samples until subsample error rates can be projected; | The DSS continues to prepare for 100 percent state review for the period beginning October 1, 1980, in the event that SSA fails to execute the model agreement, cannot pass interim regulations in time, or is unable to complete the technical preparations necessary for implementation. |
| - Complete its case reviews more promptly; | The department negotiated contract language establishing new review time frames and procedures for closing the data base. These procedures will be implemented upon execution of the new contract. |
| - Negotiate with the Social Security Administration to adjust the reimbursement to consider all errors not included in prior reimbursement proposals. | The DSS has reached agreement with the SSA on revising federal reimbursement computations to determine additional credits to the State for each period. The DSS is negotiating with the SSA for possible inclusion of other cases which the SSA claims were not received within the required 30-day period after the data base was closed. |

REVIEW OF THE DEPARTMENT OF SOCIAL SERVICES' ADMINISTRATION OF
THE TITLE XX LONG-TERM TRAINING PROGRAM

SUMMARY OF FINDINGS

We have reviewed the Department of Social Services' administration of the Title XX long-term training program, which financially assists current and potential employees of Title XX agencies in obtaining their master's degrees in social work. We found that the Department of Social Services has not effectively carried out its administrative responsibilities:

- The department spent funds to prepare students for employment with social service agencies despite the limited job opportunities in this area;
- The department has allowed this program to continue without evaluating the availability of jobs for participants not currently employed by a Title XX agency;
- The department has not adequately monitored the enforcement of federal regulations requiring commitments from students to work in Title XX agencies upon completion of their training.

As a result, there is no assurance that the objectives of the training program are being realized. Furthermore, we found that the Department of Social Services did not adhere to State Administrative Manual procedures in contracting with the Southwest Regional Laboratory; that the training needs of foster parents, child care operators, and in-home supportive services providers are unmet as a result of federal funding curtailments; and, finally, that students at the universities we reviewed are receiving varying amounts of financial assistance.

AUDITOR GENERAL RECOMMENDATIONS
TO AGENCY

We recommend that the Department of Social Services discontinue financial assistance for all students who are not currently employed by or on leave of absence from Title XX agencies.

AGENCY ACTION

The department issued a Request for Proposal requiring that stipends must be limited to employees on a leave of absence from a county welfare department.

AUDITOR GENERAL RECOMMENDATIONS
TO AGENCY

The department should establish uniform guidelines to ensure that all students have legally binding commitments to work for a Title XX agency after their training is completed.

AGENCY ACTION

The department has established guidelines which require that any person receiving a stipend must (1) have a legally binding commitment to work for a Title XX agency and (2) have been selected by the Title XX agency for the stipend program.

THE CALIFORNIA AGRICULTURAL EXPERIMENT STATION: AN ANALYSIS OF
RESEARCH PROGRAM ACTIVITIES

SUMMARY OF FINDINGS

The California Agricultural Experiment Station (CAES) is the largest in the nation conducting research on agriculture, rural life, and agriculturally related problems. The CAES has approximately 900 researchers and, in fiscal year 1978-79, had a budget of over \$63 million. Research is conducted under seven major program goals in research areas ranging from agricultural production and marketing to community and economic development.

The CAES has contributed significantly to agriculture in certain areas of research. But, while the CAES has extensively supported research in agricultural production, product improvement, and protection of plant and animals, it has provided only limited support in the community and economic development research area. Furthermore, the CAES does not routinely apprise the Legislature of research expenditures supported by state appropriations.

Our review also disclosed that the CAES has classified funds to support specific research as gifts instead of as grants or contracts, and therefore, it was unable to recover some indirect costs. In addition, the State has subsidized research for certain organizations by exempting them from indirect charges.

We further found that some CAES researchers were using restricted pesticides without permits. Also, no systematic records were maintained at the University on persons who could have been exposed to restricted pesticides during testing.

AUDITOR GENERAL RECOMMENDATIONS
TO LEGISLATURE

We recommend that the Legislature require the University of California, in its agricultural research budget request, to specify how state monies will be used to support specific California Agricultural Experiment Station research programs.

LEGISLATIVE ACTION

Hearings were held on the report before the Assembly Ways and Means Subcommittee on Education. During these hearings, the subcommittee required the CAES to submit a detailed management plan within eight months.

AUDITOR GENERAL RECOMMENDATIONS
TO AGENCY

AGENCY ACTION

We recommend that the California Agricultural Experiment Station consider establishing both a management plan detailing research priorities and a system to evaluate the effectiveness of research. These should be made available for legislative and public review. We also suggest that the CAES take the following actions:

- Develop and implement improved procedures to ensure that projects funded for specific research interests are classified as grants or contracts and that appropriate overhead charges are assessed;
- Implement and enforce more effective controls over pesticide use and maintain records on all restricted pesticides.

The university agreed to submit a management plan for review by the subcommittee and the Office of the Auditor General.

The university agreed to implement improved procedures to ensure that projects funded for specific research interests are classified as grants or contracts with the assessment of appropriate overhead charges.

The university agreed to tighten regulations on the use and recording of pesticides in conjunction with the State Department of Food and Agriculture.

STATE WATER RESOURCES CONTROL BOARD: CLEAN WATER GRANT PROGRAM HAS UNREALISTIC GOALS AND IS HINDERED BY FRAGMENTED AUTHORITY AND INEFFECTIVE ADMINISTRATIVE PROCEDURES

SUMMARY OF FINDINGS

We reviewed selected areas of the State's water quality control program administered by the State Water Resources Control Board and the nine regional boards. The review focused on the Clean Water Grant Program which includes those aspects of the federal Clean Water Act delegated to the State by the Environmental Protection Agency (EPA). The program is designed to upgrade municipal wastewater treatment plants so that wastes discharged from them will meet federal minimum treatment standards by July 1, 1983.

We found that many of California's publicly owned treatment works will not meet the objectives of the federal Clean Water Act by 1983 even though over \$3 billion in federal, state, and local funds have been expended or encumbered and over \$5 billion more may be spent on eligible projects. Litigation, environmental problems, decreases in federal funding, and fragmented administration have contributed to making the 1983 goal unachievable. In view of program complexities, the federal goals are unrealistic and more realistic goals should be established.

Because 1983 goals will not be achieved and federal authorizations expire in 1982, Congress will have to extend authorizations and deadlines to meet the objectives of the Clean Water Act. Since at least 25 percent of the funding for this program comes from California sources, it is imperative that the state board plan ahead by preparing alternatives for legislative and congressional consideration.

AUDITOR GENERAL RECOMMENDATIONS
TO AGENCY

AGENCY ACTION

We recommend that the State Water Resources Control Board adopt the following measures:

- Determine when California can realistically achieve the federal goals;

Based on the President's projection of available funds and a yearly inflation rate of 10 percent, the state board estimates that the goals of the Clean Water Act could be met by 1995. If Congress would make \$2.9 billion available, all projects could be funded by 1985 and completed by 1988.

AUDITOR GENERAL RECOMMENDATIONS
TO AGENCY

AGENCY ACTION

- | | |
|---|--|
| <ul style="list-style-type: none">- Propose legislative action which will request amendments to the federal law to establish realistic goals and funding levels;
- Submit to the Legislature plans to meet clean water objectives based on potential alternative federal deadlines and funding;
- Ensure that the need for projects is established before they are included on the statewide priority list and that the projects are funded in the order of established priority;

- Obtain authority to conduct financial systems evaluations; | <p>The EPA is currently updating the 1978 Needs Survey and the 1983 goal will probably be extended to the year 1990. The board is assisting the EPA in conducting this survey in California.</p> <p>The board's current system has the flexibility to compensate for variations in federal funding. The board is able to adjust to any federal funding allotments to ensure that no federal funds are lost and that the highest priority projects are funded first.</p> <p>The board adopted new regulations and procedures for developing the statewide priority list. The new requirements are designed to ensure that recommended projects meet local plans and are subject to local public comment. Applicants must be willing to proceed before the project is allowed on the priority list. The list is then subject to a state board public hearing and approval by the EPA. The board believes that this system will ensure that the most severe water quality problems are funded first.</p> <p>The board is considering making federal grant funds available to grantees to hire outside consultants to conduct financial systems evaluations.</p> |
|---|--|

AUDITOR GENERAL RECOMMENDATIONS
TO AGENCY

- Conduct all required operations and maintenance inspections and follow up to ensure that deficiencies are corrected;
- Act immediately to request and resolve all final audits;
- Revise its accounting system to reconcile grant funds.

AGENCY ACTION

The board agrees with this recommendation and will conduct all final project inspections. The board has also revised its procedures to include an adequate follow-up of noted deficiencies.

The board has given higher priority to resolving final audit exceptions. Eight additional staff members, including a unit supervisor, are assigned to resolve audit exceptions.

The board did not agree that it should revise its accounting system to reconcile grant funds. However, it has taken steps to reconcile a \$1.1 million deficit in the Grants Administration Revolving Fund. These costs should have been funded from federal sources; however, they were funded by the State's General Fund. The board has received a federal grant to cover this deficit.

SCHEDULE OF 1980 FINANCIAL AUDITS

This section includes a schedule of all financial audits completed in 1980. The schedule highlights the fiscal year reviewed, the dollar value of expenditures, and the type of opinion issued within each audit report.

Generally accepted auditing standards require auditors of the Financial Audit Division to issue one of four types of opinions on financial statements:

- An unqualified opinion means that the auditor found that the financial position, results of operations, and changes in financial position are presented fairly in conformity with generally accepted accounting principals.
- A qualified opinion means that the auditor has a reservation as to the fair presentation of the financial statements.
- An adverse opinion signifies that the financial statements do not present fairly the financial position, results of operations, or changes in financial position in conformity with generally accepted accounting principles.

- A disclaimer of opinion means that for some reasons the auditor does not express an opinion on the financial statements.

As depicted in the following schedule, most audit reports issued by the Financial Audit Division featured one of these opinions. However, the division conducted some audits to determine the degree of compliance with laws and regulations rather than to express an opinion on the fairness of the financial statements. These audits are identified in the schedule by the word "compliance" in the Type of Opinion column.

SCHEDULE OF FINANCIAL AUDITS

<u>Agency or Fund</u>	<u>Fiscal Year Audited</u>	<u>Expenditures (In Dollars)</u>	<u>Type of Opinion</u>
Advisory Commission on Youth, California (see Contracted Fiscal Services)	1978-79		
Advisory Council on Vocational Education, California (see Contracted Fiscal Services)	1978-79		
Agricultural Labor Relations Board		6,347,440	Unqualified
Alcohol and Drug Programs, Department of		84,074,915	Qualified
Arts Council, California (see Contracted Fiscal Services)			
Californias, Commission of the (see Contracted Fiscal Services)			
Chiropractic Examiners, Board of (see Contracted Fiscal Services)			
Community Colleges, Board of Governors of the California	1978-79	827,554,573	Unqualified
Conservation Corps, California	1977-78	12,191,988	Unqualified
Conservation, Department of	1978-79	10,382,962	Unqualified
Consumer Affairs, Department of	1977-78	38,486,425	Unqualified
Contracted Fiscal Services			
Advisory Commission on Youth, California	1978-79	33,131	Unqualified
Advisory Council on Vocational Education, California	1978-79	414,521	Unqualified
Arts Council, California	1978-79	2,500,170	Unqualified
Californias, Commission of the	1978-79	111,423	Unqualified
Chiropractic Examiners, Board of	1978-79	284,993	Unqualified
Economic Development, Commission for	1978-79	252,797	Unqualified
Finance, Department of	1978-79	47,795,395	Unqualified
Fiscal Information System, California	1978-79	985,308	Unqualified
Information Systems Implementation Committee, California	1978-79	42,796	Unqualified
Intergovernmental Board on Electronic Data Processing	1978-79	7,978	Unqualified
Intergovernmental Personnel Act Advisory Council	1978-79	1,456,416	Unqualified
Law Revision Commission, California	1978-79	278,721	Unqualified
Lieutenant Governor, Office of the	1978-79	835,400	Unqualified
Native American Heritage Commission	1978-79	173,824	Unqualified
Organization and Economy, Commission on California State Government			
Osteopathic Examiners, Board of	1978-79	237,525	Unqualified
	1978-79	186,829	Unqualified

SCHEDULE OF FINANCIAL AUDITS
(continued)

<u>Agency or Fund</u>	<u>Fiscal Year Audited</u>	<u>Expenditures (In Dollars)</u>	<u>Type of Opinion</u>
Contracted Fiscal Services (continued)			
Planning and Research, Office of	1978-79	8,476,938	Unqualified
Pollution Control Financing Authority	1978-79	331,186	Unqualified
Postsecondary Education Commission, California	1978-79	4,651,927	Unqualified
Public Broadcasting Commission, California	1978-79	658,088	Unqualified
Public Employment Relations Board	1978-79	2,647,985	Unqualified
Rural Youth Employment Program	1978-79	187,623	Unqualified
Santa Monica Mountains Comprehensive Planning Commission	1978-79	260,713	Unqualified
Southwest Border Regional Commission	1978-79	187,934	Unqualified
Status of Women, Commission on the	1978-79	303,200	Unqualified
Teacher Preparation and Licensing, Commission for	1978-79	3,337,115	Unqualified
Transportation Commission, California	1978-79	574,276	Unqualified
Controller, State	1978-79	25,697,552	Unqualified
Condemnation Deposits Fund	1978-79	--	Unqualified
County Formation Revolving Fund	1978-79	--	Unqualified
Federal Revenue Sharing Fund	1978-79	--	Unqualified
Flood Control Receipts Fund, United States	1978-79	--	Unqualified
Forest Reserve Fund, United States	1978-79	--	Unqualified
Grazing Fee Fund, United States	1978-79	--	Unqualified
Insurance Tax Fund	1978-79	--	Unqualified
Judges' Retirement Fund	1978-79	16,150,247	Qualified
Local Agency Investment Fund	1978-79	--	Unqualified
Public School Building Loan Fund	1978-79	--	Qualified
School Building Safety Fund	1978-79	652,450	Qualified
State Payroll Revolving Fund	1978-79	--	Unqualified
Surplus Money Investment Fund	1978-79	--	Unqualified
Transportation Tax Fund - State Controller's Account	1978-79	--	Unqualified
Corrections, Department of			
General Fund, Special Deposit Fund, Trust Fund, Fixed	1977-78	267,450,120	Qualified
Asset Account Group	1977-78	784,042	Adverse
Inmate Welfare Fund			

SCHEDULE OF FINANCIAL AUDITS
(continued)

<u>Agency or Fund</u>	<u>Fiscal Year Audited</u>	<u>Expenditures (In Dollars)</u>	<u>Type of Opinion</u>
Developmental Services, Department of			
General Fund and General Fixed Asset Account Group	1978-79	379,069,769	Disclaimer
Special Revenue Fund and Agency Fund Types	1978-79	1,542,926	Unqualified
Economic and Business Development, Department of	1978-79	2,947,996	Qualified
Economic Development, Commission for (see Contracted Fiscal Services)			
Education, State Department of	1978-79	6,104,581,586	Qualified
Employment Development Department Contracts ^a			
Aging, Department of	1978-79	--	Compliance
Developmental Services, Department of	1978-79	--	Compliance
Economic and Business Development, Department of	1978-79	--	Compliance
Finance, Department of	1978-79	--	Compliance
Fish and Game, Department of	1978-79	--	Compliance
General Services, Department of	1978-79	--	Compliance
Governor, Office of the	1978-79	--	Compliance
Health Planning and Development, Office of Statewide	1978-79	--	Compliance
Housing and Community Development, Department of	1978-79	--	Compliance
Industrial Relations, Department of	1978-79	--	Compliance
Military Department, California	1978-79	--	Compliance
Parks and Recreation, Department of	1978-79	--	Compliance
Rehabilitation, Department of	1978-79	--	Compliance
Secretary of State	1978-79	--	Compliance
State Coastal Conservancy	1978-79	--	Compliance
State Lands Commission	1978-79	--	Compliance
State Personnel Board	1978-79	--	Compliance
Title II Funds	1978-79	--	Compliance
University of California at Riverside	1978-79	--	Compliance
Veterans Affairs, Department of	1978-79	--	Compliance
Energy Resources Conservation and Development Commission	1977-78	18,963,906	Unqualified
Environmental Protection Program Fund	1978-79	7,353,063	Unqualified
Equalization, Board of	1977-78	62,962,885	Unqualified

^a For these compliance audits, we did not determine, and therefore do not include, total expenditures.

SCHEDULE OF FINANCIAL AUDITS
(continued)

<u>Agency or Fund</u>	<u>Fiscal Year Audited</u>	<u>Expenditures (In Dollars)</u>	<u>Type of Opinion</u>
Finance, Department of (see Contracted Fiscal Services)			
Fiscal Information System (see Contracted Fiscal Services)			
Forestry, Department of	1977-78	148,425,635	Unqualified
General Services, Department of	1978-79	74,524,248	Qualified
State School Building Aid Fund	1978-79	1,170,309	Qualified
Public Building Construction Fund, Building Certificates	1978-79	824,963	Unqualified
Governor's Advisory Committee on Child Care	1978-79	72,403	Unqualified
Health and Welfare Agency	1978-79	1,346,430	Unqualified
Health and Welfare Agency Data Center	1978-79	7,242,361	Unqualified
Health Facilities Commission Fund, California	1978-79	1,726,520	Qualified
Health Planning and Development, Office of Statewide	1978-79	7,198,206	Unqualified
Health Services, Department of	1978-79	2,138,862,910	Disclaimer
Genetic Disease Testing Fund	1978-79	592,459	Unqualified
Health Care Deposit Fund	1978-79	3,403,399,041	Disclaimer
Immunization Adverse Reaction Fund	1978-79	8,474	Unqualified
Public Health Federal Fund	1978-79	78,119,156	Disclaimer
Information Systems Implementation Committee, California (see Contracted Fiscal Services)			
Inmate Welfare Fund (see Corrections, Department of)			
Intergovernmental Board on Electronic Data Processing (see Contracted Fiscal Services)			
Intergovernmental Personnel Act Advisory Council (see Contracted Fiscal Services)			
Law Revision Commission, California (see Contracted Fiscal Services)			
Legislative Counsel, Office of	1978-79	6,343,945	Qualified
Lieutenant Governor, Office of the (see Contracted Fiscal Services)			
Mental Health, Department of			
Agency Fund Types	1978-79	--	Unqualified
General Fund and General Fixed Asset Accounts	1978-79	411,508,188	Disclaimer

SCHEDULE OF FINANCIAL AUDITS
(continued)

<u>Agency or Fund</u>	<u>Fiscal Year Audited</u>	<u>Expenditures (In Dollars)</u>	<u>Type of Opinion</u>
Native American Heritage Commission (see Contracted Fiscal Services)			
Organization and Economy, Commission on California State Government (see Contracted Fiscal Services)			
Osteopathic Examiners, Board of (see Contracted Fiscal Services)			
Parks and Recreation, Department of	1978-79	94,874,981	Unqualified
Bagley Conservation Fund	1978-79	11,141,483	Unqualified
Collier Park Preservation Fund	1978-79	8,096,677	Unqualified
Recreation and Fish and Wildlife Enhancement Fund	1978-79	2,570,715	Unqualified
State Beach, Park, Recreation and Historical Facilities Fund of 1964			
State Beach, Park, Recreation and Historical Facilities Fund of 1974	1978-79	1,463,212	Unqualified
State, Urban, and Coastal Park Fund			
Peace Officer Standards and Training, Commission on	1978-79	28,688,093	Unqualified
Planning and Research, Office of (see Contracted Fiscal Services)	1978-79	50,404,751	Unqualified
Postsecondary Education Commission, California (see Contracted Fiscal Services)	1978-79	13,244,023	Qualified
Public Broadcasting Commission, California (see Contracted Fiscal Services)			
Public Employment Relations Board (see Contracted Fiscal Services)			
Public Utilities Commission, State of California	1977-78	28,080,547	Unqualified
Real Estate, Department of	1978-79	10,136,246	Unqualified
Resources Agency	1977-78	1,672,804	Unqualified
Rural Youth Employment Program (see Contracted Fiscal Services)			
San Francisco Bay Conservation and Development Commission			
Santa Monica Mountains Comprehensive Planning Commission (see Contracted Fiscal Services)	1978-79	914,689	Unqualified

SCHEDULE OF FINANCIAL AUDITS
(continued)

<u>Agency or Fund</u>	<u>Fiscal Year Audited</u>	<u>Expenditures (In Dollars)</u>	<u>Type of Opinion</u>
Social Services, Department of	1978-79	2,186,127,229	Disclaimers
Emergency Revolving Fund	1978-79	--	Unqualified
Interstate Collection Incentive Fund	1978-79	--	Unqualified
Revolving Loan Fund	1978-79	--	Unqualified
Social Welfare Federal Fund	1978-79	1,482,817,901	Disclaimers
Special Deposit Fund	1978-79	4,578,193	Unqualified
Support Enforcement Incentive Fund	1978-79	--	Unqualified
Southwest Border Regional Commission (see Contracted Fiscal Services)			
State and Consumer Services Agency	1978-79	366,161	Unqualified
Status of Women, Commission on the (see Contracted Fiscal Services)			
Stephen P. Teale Consolidated Data Center	1978-79	13,610,650	Unqualified
Student Aid Commission, California	1978-79	80,344,268	Qualified
Teacher Preparation and Licensing, Commission for (see Contracted Fiscal Services)			
Transportation Commission, California (see Contracted Fiscal Services)			
Treasurer, State	1978-79	1,977,950	Unqualified
Uniform State Laws, Commission on	1978-79	39,095	Unqualified
Veterans Affairs, Department of	1978-79	19,485,592	Qualified
Water Resources, Department of	1977-78	64,887,263	Unqualified
Youth Authority, Department of the	1977-78	143,837,383	Qualified

SELECTED ACTIVITIES OF THE
INVESTIGATIVE AUDIT DIVISION

Included here is a summary of the number and type of complaints investigated by the Investigative Audit Division during 1980. Also summarized are examples of selected cases that have resulted in corrective action or criminal prosecution.

Since its inception in February 1980, the Investigative Audit Division has received approximately 1,400 complaints. Of these complaints, 470 allegations of improper activities warranted investigation by the division. The schedule on the following page categorizes the total number of complaints received during 1980.

<u>Type of Complaint</u>	<u>Number This Year</u>
Improper contracting procedures	32
Failure to administer programs properly	120
Wasteful purchases and administrative decisions	62
Misuse of state cars and travel	61
Personnel	38
Theft and abuse of state funds and resources	74
Inaccurate reporting and unnecessary overtime	21
Conflict of interest	16
Miscellaneous	<u>46</u>
Subtotal	470
Not warranting investigation	<u>963</u>
Total	<u><u>1,433</u></u>

The Investigative Audit Division staff conducted internal investigations for the 470 complaints categorized within the schedule. These internal investigations are made for each allegation filed to determine whether the reported impropriety falls within the Auditor General's jurisdiction, whether there is substantial evidence of wrongdoing to warrant further investigation, or whether any corrective action already has been taken. If any criminal activity is indicated, the

matter is referred to the Attorney General. If the allegation seems credible, it is referred to either a field investigation or an agency investigation, as defined below:

- Field investigations are conducted by the Investigative Audit Division staff. These investigations, which determine the extent of the improper activities, must be conducted when internal audits by the agency or department involved would not be objective or adequate. The field audit results are reported to the agency and to the Joint Legislative Audit Committee with recommendations for action.
- Agency investigations are carried out within the agency or department in which the impropriety occurred. The agency reports its findings and its corrective measures to the Auditor General. The Investigative Audit Division then determines if the agency audit was sufficient and reports its evaluation and recommendations to the Joint Legislative Audit Committee.

For 254 of the 470 complaints, division staff either closed the case after the internal investigation, initiated a field investigation, or referred the complaint to the agency for its review. In 44 cases, the appropriate agency took corrective action.

Although we cannot summarize the Investigative Division case reports here because of their confidential nature, we present some examples of certain cases that have resulted in corrective action or criminal prosecution.

Case No. 1

A state agency provided free parking spaces to employees for several years. This agency had failed to file a parking plan with the Department of General Services as required by state regulations. As a result of our investigation, employees are now paying for parking spaces and the agency has filed a parking plan. We estimate that this impropriety resulted in a \$40,000 loss of revenue to the State over these years.

Case No. 2

A state employee had been using the cash voucher system to purchase goods for personal gain. Purchases were made through a fictitious company for the employee's benefit. In addition, the employee made purchases for use in a personal business. The employee has been terminated from state service and the case is now under review by the District Attorney.

Case No. 3

A state employee submitted a travel claim for the moving expenses incurred when he or she transferred to a new job site. In the claim, the employee included the real estate broker's commission and other expenses of selling the house. However, the commission (\$4,500) was found to be fictitious. Because of our investigation, the state employee, the buyer of the house, and the real estate agent were all arrested.

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